

**CITY OF CHEROKEE**  
**INDEPENDENT AUDITORS' REPORTS**  
**PRIMARY GOVERNMENT FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**  
**JUNE 30, 2007**

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CITY OF CHEROKEE  
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Dennis Henrich	Mayor	January 2010
Dwight Varce	Council Member, Mayor Pro-Tem	January 2008
Ron Johnson (through August 2006)	Council Member, Mayor Pro-Tem	
Greg Stieneke (beginning December 2006)	Council Member	January 2008
Jim Peck	Council Member	January 2008
Bob Leach	Council Member	January 2010
Mick Mallory	Council Member	January 2010
Debra Taylor	City Clerk/Treasurer	Indefinite
M.W. Miller, Jr.	Attorney	Indefinite

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

1316 West 18th Street  
P.O. Box 175  
Spencer, Iowa 51301-0175  
Phone 712-262-3117  
FAX 712-262-3159

1004 21st Street #4  
P.O. Box 187  
Milford, Iowa 51351  
Phone 712-338-2488  
FAX 712-338-2510

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Cherokee  
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the City of Cherokee, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of City of Cherokee's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Cherokee, Iowa, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Cherokee, Iowa as of June 30, 2007, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Cherokee, Iowa at June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2008 on our consideration of the City of Cherokee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 20 through 22 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the primary government of the City of Cherokee. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Winter, Steve H. LHP

January 10, 2008

## BASIC FINANCIAL STATEMENTS

CITY OF CHEROKEE  
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

		Program Receipts		
		Charges for	Operating	Capital
	<u>Disbursements</u>	<u>Service</u>	<u>Grants and</u>	<u>Grants and</u>
			<u>Contributions</u>	<u>Contributions</u>
FUNCTIONS/PROGRAMS:				
Governmental activities:				
Public safety .....	\$ 922,236	\$ 42,284	\$ 7,500	
Public works .....	708,734	9,167	447,479	
Culture and recreation .....	680,192	85,070	405,370	\$ 15,150
Community and economic development .....	635			
General government .....	175,491			
Debt service .....	983,395			25,830
Capital projects .....	<u>3,032,922</u>			
Total governmental activities	<u>6,503,605</u>	<u>136,521</u>	<u>860,349</u>	<u>40,980</u>
Business-type activities:				
Water .....	652,617	652,818		
Sewer .....	1,068,244	1,142,755		
Landfill .....	142,499	140,940		
Solid waste .....	214,224	210,971		
Storm water .....	18,171	81,237		
Airport .....				
Total business-type activities	<u>2,095,755</u>	<u>2,228,721</u>		
TOTAL	<u>\$8,599,360</u>	<u>\$2,365,242</u>	<u>\$ 860,349</u>	<u>\$ 40,980</u>
General Receipts:				
Property taxes levied for:				
General purposes .....				
Tax increment financing .....				
Debt service .....				
Local option sales tax .....				
Hotel/motel tax .....				
Grants and contributions not restricted to specific purpose .....				
Unrestricted investment interest ...				
Bonds proceeds .....				
Miscellaneous .....				
Transfers .....				
Total general receipts and transfers				
Change in cash basis net assets .....				
Cash basis net assets - beginning of year				
Cash basis net assets - end of year				
Cash basis net assets:				
Restricted:				
Debt service .....				
Road use .....				
Employee benefits .....				
Other purposes .....				
Unrestricted .....				
Total cash basis net assets				

See Notes to Financial Statements

Exhibit A

Net (Disbursement) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (872,452)		\$ (872,452)
(252,088)		(252,088)
(174,602)		(174,602)
(635)		(635)
(175,491)		(175,491)
(957,565)		(957,565)
<u>(3,032,922)</u>		<u>(3,032,922)</u>
<u>(5,465,755)</u>		<u>(5,465,755)</u>
	\$ 201	201
	74,511	74,511
	(1,559)	(1,559)
	(3,253)	(3,253)
	63,066	63,066
	<u>132,966</u>	<u>132,966</u>
<u>(5,465,755)</u>	<u>132,966</u>	<u>(5,332,789)</u>
1,345,338		1,345,338
205,308		205,308
308,574		308,574
420,459		420,459
60,899		60,899
2,287		2,287
163,893	64,337	228,230
2,200,000		2,200,000
1,186,564	208	1,186,772
<u>(37,267)</u>	<u>37,267</u>	
<u>5,856,055</u>	<u>101,812</u>	<u>5,957,867</u>
390,300	234,778	625,078
<u>2,252,559</u>	<u>772,276</u>	<u>3,024,835</u>
<u>\$2,642,859</u>	<u>\$1,007,054</u>	<u>\$3,649,913</u>
\$ 173,344	\$ 349,240	\$ 522,584
318,302		318,302
22,632		22,632
1,971,347		1,971,347
<u>157,234</u>	<u>657,814</u>	<u>815,048</u>
<u>\$2,642,859</u>	<u>\$1,007,054</u>	<u>\$3,649,913</u>

See Notes to Financial Statements



CITY OF CHEROKEE  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Special Revenue</u>	
		<u>Road</u>	<u>Employee</u>
		<u>Use</u>	<u>Benefits</u>
RECEIPTS:			
Property tax .....	\$ 911,377		\$ 406,496
Tax increment financing .....			
Other city tax .....			
Licenses and permits .....	25,777		
Use of money and property .....	73,686		2,682
Intergovernmental .....	34,250	\$ 447,479	
Charges for service .....	101,431		
Special assessments .....			
Miscellaneous .....	<u>174,761</u>	<u>125,665</u>	<u>128,478</u>
TOTAL RECEIPTS	<u>1,321,282</u>	<u>573,144</u>	<u>537,656</u>
DISBURSEMENTS:			
Operating:			
Public safety .....	566,194		356,042
Public works .....		502,727	77,074
Culture and recreation .....	504,841		93,442
Community and economic development .....	100		
General government .....	256,452		47,449
Debt service .....			
Capital projects .....			
TOTAL DISBURSEMENTS	<u>1,327,587</u>	<u>502,727</u>	<u>574,007</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(6,305)</u>	<u>70,417</u>	<u>(36,351)</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds .....			
Operating transfers in .....	10,233		
Operating transfers out .....	<u>(2,500)</u>	<u>(35,000)</u>	
TOTAL OTHER FINANCING SOURCES (USES)	<u>7,733</u>	<u>(35,000)</u>	
NET CHANGE IN CASH BALANCES	1,428	35,417	(36,351)
CASH BALANCES - BEGINNING OF YEAR .....	<u>155,806</u>	<u>282,885</u>	<u>58,983</u>
CASH BALANCES - END OF YEAR	<u>\$ 157,234</u>	<u>\$ 318,302</u>	<u>\$ 22,632</u>
CASH BASIS FUND BALANCES:			
Reserved for debt service .....			
Unreserved:			
General fund .....	\$ 157,234		
Special revenue funds .....		\$ 318,302	\$ 22,632
Capital projects fund .....			
Permanent fund .....			
TOTAL CASH BASIS FUND BALANCE	<u>\$ 157,234</u>	<u>\$ 318,302</u>	<u>\$ 22,632</u>

See Notes to Financial Statements

## Exhibit B

<u>Capital Projects</u>			
<u>Aquatic</u>	<u>Debt</u>	<u>Nonmajor</u>	<u>Total</u>
<u>Center</u>	<u>Service</u>		
	\$ 308,574	\$ 27,465	\$1,653,912
		205,308	205,308
		481,358	481,358
			25,777
\$ 31,275	18,082	38,168	163,893
400,500		4,870	887,099
			101,431
	25,830		25,830
875,417	7,753	46,826	1,358,900
<u>1,307,192</u>	<u>360,239</u>	<u>803,995</u>	<u>4,903,508</u>
			922,236
		158,753	738,554
		81,909	680,192
		535	635
			303,901
	983,395		983,395
2,436,280		596,642	3,032,922
<u>2,436,280</u>	<u>983,395</u>	<u>837,839</u>	<u>6,661,835</u>
(1,129,088)	(623,156)	(33,844)	(1,758,327)
2,050,000		150,000	2,200,000
20,000	402,945	47,965	481,143
		(480,910)	(518,410)
<u>2,070,000</u>	<u>402,945</u>	<u>(282,945)</u>	<u>2,162,733</u>
940,912	(220,211)	(316,789)	404,406
	393,555	1,239,595	2,130,824
<u>\$ 940,912</u>	<u>\$ 173,344</u>	<u>\$ 922,806</u>	<u>\$2,535,230</u>
	\$ 173,344		\$ 173,344
			157,234
		\$ 634,044	974,978
\$ 940,912		147,135	1,088,047
		141,627	141,627
<u>\$ 940,912</u>	<u>\$ 173,344</u>	<u>\$ 922,806</u>	<u>\$2,535,230</u>

See Notes to Financial Statements

CITY OF CHEROKEE  
 RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,  
 DISBURSEMENTS, AND CHANGES IN CASH BALANCES  
 TO THE STATEMENT OF ACTIVITIES AND NET ASSETS  
 GOVERNMENTAL FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

TOTAL GOVERNMENTAL FUNDS CASH BALANCES (Page 7) .....	\$2,535,230
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. ....	<u>107,629</u>
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CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES (Page 5)	<u>\$2,642,859</u>
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NET CHANGE IN CASH BALANCES (Page 7) .....	\$ 404,406
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of certain building replacements or improvements to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. ....	<u>(14,106)</u>
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CHANGE IN CASH BALANCE OF GOVERNMENTAL ACTIVITIES (Page 5)	<u>\$ 390,300</u>
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CITY OF CHEROKEE  
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES - PROPRIETARY FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Enterprise Funds				Internal Service Fund Building Replacement
	Water	Sewer	Nonmajor	Total	
OPERATING RECEIPTS:					
Charges for service .....	\$712,978	\$1,249,888	\$433,148	\$2,396,014	
Use of money and property .....	38,579	16,831	8,927	64,337	\$ 4,331
Miscellaneous .....		89	119	208	
TOTAL OPERATING RECEIPTS	<u>751,557</u>	<u>1,266,808</u>	<u>442,194</u>	<u>2,460,559</u>	<u>4,331</u>
OPERATING DISBURSEMENTS:					
Business-type activities .....	<u>507,514</u>	<u>789,550</u>	<u>374,894</u>	<u>1,671,958</u>	<u>18,437</u>
TOTAL OPERATING DISBURSEMENTS	<u>507,514</u>	<u>789,550</u>	<u>374,894</u>	<u>1,671,958</u>	<u>18,437</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>244,043</u>	<u>477,258</u>	<u>67,300</u>	<u>788,601</u>	<u>(14,106)</u>
NONOPERATING RECEIPTS (DISBURSEMENTS):					
Debt service .....	<u>(205,263)</u>	<u>(385,827)</u>		<u>(591,090)</u>	
TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)	<u>(205,263)</u>	<u>(385,827)</u>		<u>(591,090)</u>	
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	38,780	91,431	67,300	197,511	(14,106)
Operating transfers - net .....	<u>(1,811)</u>	<u>22,078</u>	<u>17,000</u>	<u>37,267</u>	
NET CHANGE IN CASH BALANCES	36,969	113,509	84,300	234,778	(14,106)
CASH BALANCES - BEGINNING OF YEAR	<u>718,247</u>	<u>(69,430)</u>	<u>123,459</u>	<u>772,276</u>	<u>121,735</u>
CASH BALANCES - END OF YEAR	<u>\$755,216</u>	<u>\$ 44,079</u>	<u>\$207,759</u>	<u>\$1,007,054</u>	<u>\$107,629</u>
CASH BASIS FUND BALANCES:					
Reserved for debt service .....	\$307,413	\$ 41,827		\$ 349,240	
Unreserved .....	<u>447,803</u>	<u>2,252</u>	<u>\$207,759</u>	<u>657,814</u>	<u>\$107,629</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$755,216</u>	<u>\$ 44,079</u>	<u>\$207,759</u>	<u>\$1,007,054</u>	<u>\$107,629</u>

CITY OF CHEROKEE  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCE  
FIDUCIARY FUND  
YEAR ENDED JUNE 30, 2007

	Agency Fund Cherokee Aviation Authority
CASH BALANCE - BEGINNING OF YEAR .....	\$ _____
RECEIPTS:	
Property tax .....	15,258
Miscellaneous .....	<u>2,791</u>
TOTAL RECEIPTS	18,049
DISBURSEMENTS:	
To other governments .....	<u>18,049</u>
CASH BALANCE - END OF YEAR	\$ _____

## NOTES TO FINANCIAL STATEMENTS

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2007

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Cherokee, Iowa is a political subdivision of the State of Iowa located in Cherokee County. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides various utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. These financial statements are intended to present only the primary government of the City of Cherokee. Therefore, the financial statements do not include financial data for any legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government if the financial statements were intended to present the cash basis financial position of the reporting entity of the City of Cherokee.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Cherokee County Joint E911 Service Board, Cherokee County Assessor's Conference Board, Cherokee County Solid Waste Commission, and Cherokee Aviation Authority. Financial transactions of these organizations are included in the City's financial statements only to the extent of the City's fiduciary relationship with the organization and, as such, are reported as an Agency fund of the City.

**B. Basis of Presentation**

Government-Wide Financial Statements - The statement of activities and net assets reports information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The statement of activities and net assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The statement of activities and net assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are separately aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for the benefits provided employees which are financed by property taxes.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for financing the replacement of damaged property not covered by insurance coverage.



CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C. Measurement Focus and Basis of Accounting**

The City of Cherokee maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety, community and economic development, and debt service functions.

**2. CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-ended management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City did not have investments subject to risk categorization at June 30, 2007.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**3. NOTES PAYABLE**

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 803,000	\$ 245,928	\$ 555,000	\$ 265,298	\$ 1,358,000	\$ 511,226
2009	833,000	219,745	623,000	241,458	1,456,000	461,203
2010	841,000	188,535	741,000	214,090	1,582,000	402,625
2011	863,000	155,525	755,000	180,744	1,618,000	336,269
2012	910,000	121,165	763,000	146,826	1,673,000	267,991
2013 - 2017	1,835,000	183,297	1,466,000	463,680	3,301,000	646,977
2018 - 2022			1,580,000	186,952	1,580,000	186,952
2023			216,000	6,480	216,000	6,480
Total	<u>\$6,085,000</u>	<u>\$1,114,195</u>	<u>\$6,699,000</u>	<u>\$1,705,528</u>	<u>\$12,784,000</u>	<u>\$2,819,723</u>

The Code of Iowa requires that principal and interest on general obligation notes be paid from the Debt Service Fund.

The resolutions providing for the issuance of water and sewer revenue notes include the following provisions:

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders retain a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers to the water reserve account shall be made until specific minimum balances have been accumulated. The water reserve account, which exceeds its minimum balance requirement, is restricted for the purpose of paying principal at maturity or interest on the water revenue notes if sufficient money is not available in the Sinking Fund. Effective July 1, 2006, the Iowa Finance Authority has determined reserve funds are no longer required for the sewer revenue notes.
- d. All funds remaining in the city water account after the payment of all maintenance and operating expenses and required transfers shall be placed in a water revenue improvement fund at a minimum rate of \$5,000 per month until a minimum of \$200,000 is accumulated. This account is restricted for the purpose of paying for any improvement, extension, or repair to the system or for note and interest payments which the other accounts might be unable to make.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**3. NOTES PAYABLE - Continued**

At June 30, 2007, the balances of these special funds included in the respective utility fund balance are as follows.

	<u>Water</u>	<u>Sewer</u>
Bond and interest sinking .....	\$ 38,583	\$ 41,827
Bond reserve .....	206,483	
Improvement .....	<u>62,346</u>	<u>          </u>
TOTAL	<u>\$307,412</u>	<u>\$ 41,827</u>

**4. PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$79,967, \$80,928, and \$79,550, respectively, equal to the required contributions for each year.

**5. COMPENSATED ABSENCES**

City employees meeting established criteria accumulate a limited amount of earned but unused vacation, compensatory time, and sick leave hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time, and sick leave termination payments payable to employees at June 30, 2007, primarily relating to the General Fund, is \$188,543.

The liability for compensated absences has been computed based on rates of pay as of June 30, 2007.

**6. LANDFILL CONTRACT**

The solid waste disposal contract, which continues indefinitely, requires total annual payments of \$138,672 by the City. This amount is attributed to the City's 1990 census as it relates in total to the county.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**7. INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Parks & Recreation Capital Improvement	General	\$ 2,500
Airport	Special Revenue: Emergency	17,000
Debt Service	Special Revenue: Local Option Sales Tax	300,000
	Special Revenue: Urban Renewal TIF	102,945
		<u>402,945</u>
Capital Projects	Special Revenue: Road Use	35,000
	Special Revenue: Hotel/motel tax	20,000
	Special Revenue: Emergency	10,465
		<u>65,465</u>
Sewer	Special Revenue: Urban Renewal TIF	30,500
Total		<u>\$518,410</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**8. RELATED PARTY TRANSACTIONS**

The City had business transactions between the City and City officials and employees, totaling \$1,000 during the year ended June 30, 2007.

**9. LOCAL GOVERNMENT RISK POOL**

The City of Cherokee is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 556 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**9. LOCAL GOVERNMENT RISK POOL - Continued**

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses, and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City of Cherokee's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Cherokee's annual contributions to the Pool for the year ended June 30, 2007 were \$94,205.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**9. LOCAL GOVERNMENT RISK POOL - Continued**

The City of Cherokee also carries commercial insurance purchased from other insurers for coverage associated with commercial property, workers' compensation, lift station in flood area, and hangerkeeper's liability. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**10. LOANS RECEIVABLE**

At June 30, 2007, the City had the following outstanding balances on loans made from the Revolving Loan Fund as an effort to promote economic development and promote and retain jobs within the City:

Filter Recycling - \$30,000 loan on October 1, 1997, payable in 122 monthly payments of \$302.27, including interest at 5%. .....	\$ 2,081
Cherokee Family Daycare - \$25,000 loan on April 23, 2002, payable in 72 monthly payments of \$400, including interest at 5%. .....	4,121
American Natural Soy - \$21,956 loan on December 9, 2003, payable in 10 annual payments of \$2,442.64, including interest at 2%. .....	<u>15,798</u>
TOTAL	<u>\$ 22,000</u>

**11. DEFICIT FUND BALANCES**

The following funds had a deficit balance at June 30, 2007:

<u>Fund</u>	<u>Deficit Balance June 30, 2007</u>	<u>Cause of Deficit</u>	<u>Plans to Eliminate Deficit</u>
Proprietary:			
Landfill	\$ (7,036)	Increase in expenditures	Reduce spending
Solid Waste	(3,788)	Increase in expenditures	Reduce spending
Airport	(18,482)	Project costs	Transfers from other funds

**12. LITIGATION**

The City is party to routine legal proceedings and litigation arising in the normal course of business. In the opinion of management, the outcome of such actions will have no material impact on the City's financial condition.

CITY OF CHEROKEE  
NOTES TO FINANCIAL STATEMENTS - Continued

**13. COMMITMENT**

At June 30, 2007, the City had construction contracts for the aquatic center project totaling approximately \$3,049,009 of which approximately \$264,962 remained outstanding. Subsequent to June 30, 2007, the City entered into additional construction contracts totaling \$327,672.

## REQUIRED SUPPLEMENTARY INFORMATION



CITY OF CHEROKEE  
BUDGETARY COMPARISON SCHEDULE OF  
RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -  
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted
RECEIPTS:			
Property tax .....	\$1,653,912		
Tax increment financing collections .....	205,308		
Other city tax .....	481,358		
Licenses and permits .....	25,777		
Use of money and property .....	163,893	\$ 68,668	
Intergovernmental .....	887,099		
Charges for service .....	101,431	2,396,014	\$ 167,293
Special assessments .....	25,830		
Miscellaneous .....	<u>1,358,900</u>	<u>208</u>	<u>172,336</u>
TOTAL RECEIPTS	<u>4,903,508</u>	<u>2,464,890</u>	<u>339,629</u>
DISBURSEMENTS:			
Public safety .....	922,236		
Public works .....	738,554		58,032
Culture and recreation .....	680,192		
Community and economic development .....	635		
General government .....	303,901		128,410
Debt service .....	983,395		
Capital projects .....	3,032,922		
Business-type activities .....		<u>2,281,485</u>	<u>167,293</u>
TOTAL DISBURSEMENTS	<u>6,661,835</u>	<u>2,281,485</u>	<u>353,735</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(1,758,327)	183,405	(14,106)
OTHER FINANCING SOURCES - NET .....	<u>2,162,733</u>	<u>37,267</u>	
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	404,406	220,672	(14,106)
BALANCES - BEGINNING OF YEAR .....	<u>2,130,824</u>	<u>894,011</u>	<u>(1,524,681)</u>
BALANCES - END OF YEAR	<u>\$2,535,230</u>	<u>\$1,114,683</u>	<u>\$(1,538,787)</u>

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<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$1,653,912	\$1,580,115	\$1,580,115	\$ 73,797
205,308	187,880	187,880	17,428
481,358	493,464	493,464	(12,106)
25,777	16,775	16,775	9,002
232,561	103,250	103,250	129,311
887,099	471,722	471,722	415,377
2,330,152	2,464,574	2,464,574	(134,422)
25,830	35,000	35,000	(9,170)
<u>1,186,772</u>	<u>526,469</u>	<u>526,469</u>	<u>660,303</u>
<u>7,028,769</u>	<u>5,879,249</u>	<u>5,879,249</u>	<u>1,149,520</u>
922,236	861,380	891,080	(31,156)
680,522	643,527	739,527	59,005
680,192	689,333	689,333	9,141
635	450	450	(185)
175,491	316,527	316,527	141,036
983,395	969,078	969,078	(14,317)
3,032,922	792,650	3,034,650	1,728
<u>2,114,192</u>	<u>2,434,968</u>	<u>2,434,968</u>	<u>320,776</u>
<u>8,589,585</u>	<u>6,707,913</u>	<u>9,075,613</u>	<u>486,028</u>
(1,560,816)	(828,664)	(3,196,364)	1,635,548
<u>2,200,000</u>		<u>2,579,230</u>	<u>(379,230)</u>
639,184	<u>\$ (828,664)</u>	<u>\$ (617,134)</u>	<u>\$1,256,318</u>
<u>4,549,516</u>			
<u>\$5,188,700</u>			

CITY OF CHEROKEE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except internal service funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and non-program. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds and proprietary funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,367,700. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the following functions: public safety, community and economic development, and debt service.

## OTHER SUPPLEMENTARY INFORMATION

CITY OF CHEROKEE  
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	<u>Capital Projects</u>	<u>Emergency</u>	<u>Local Option Sales Tax</u>
RECEIPTS:			
Property tax .....		\$ 27,465	
Tax increment financing .....			
Other city tax .....			\$420,459
Use of money and property .....	\$ 4,546		18,658
Intergovernmental .....			
Miscellaneous .....	<u>3,252</u>		
TOTAL RECEIPTS	<u>7,798</u>	<u>27,465</u>	<u>439,117</u>
DISBURSEMENTS:			
Operating:			
Public works .....	158,753		
Culture and recreation .....			
Community and economic development .....	535		
Capital projects .....	<u>596,642</u>		
TOTAL DISBURSEMENTS	<u>755,930</u>		
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(748,132)</u>	<u>27,465</u>	<u>439,117</u>
OTHER FINANCING SOURCES (USES):			
Bond proceeds .....	150,000		
Operating transfers in .....	45,465		
Operating transfers out .....		<u>(27,465)</u>	<u>(300,000)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>195,465</u>	<u>(27,465)</u>	<u>(300,000)</u>
NET CHANGE IN CASH BALANCES	(552,667)		139,117
CASH BALANCES - BEGINNING OF YEAR .....	<u>699,802</u>		<u>215,969</u>
CASH BALANCES - END OF YEAR	<u>\$ 147,135</u>	<u>\$</u>	<u>\$355,086</u>
CASH BASIS FUND BALANCES:			
Unreserved:			
Special revenue funds .....			\$355,086
Capital projects .....	\$ 147,135		
Permanent fund .....			
TOTAL CASH BASIS FUND BALANCES	<u>\$ 147,135</u>	<u>\$</u>	<u>\$355,086</u>

Special Revenue				
<u>Hotel/ Motel</u>	<u>Urban Renewal TIF</u>	<u>Revolving Loan</u>	<u>Library Memorial</u>	<u>Parks &amp; Recreation Capital Improvements</u>
	\$205,308			
\$ 60,899		\$ 3,162	\$ 421	\$ 2,917
1,965			4,870	
		10,568	9,797	20,169
<u>62,864</u>	<u>205,308</u>	<u>13,730</u>	<u>15,088</u>	<u>23,086</u>
54,769			14,382	9,409
<u>54,769</u>	<u></u>	<u></u>	<u>14,382</u>	<u>9,409</u>
8,095	205,308	13,730	706	13,677
<u>8,095</u>	<u>205,308</u>	<u>13,730</u>	<u>706</u>	<u>13,677</u>
(20,000)	(133,445)			2,500
<u>(20,000)</u>	<u>(133,445)</u>	<u></u>	<u></u>	<u>2,500</u>
(11,905)	71,863	13,730	706	16,177
29,453	36,150	59,236	10,743	52,805
<u>29,453</u>	<u>36,150</u>	<u>59,236</u>	<u>10,743</u>	<u>52,805</u>
\$ 17,548	\$108,013	\$ 72,966	\$ 11,449	\$ 68,982
<u>\$ 17,548</u>	<u>\$108,013</u>	<u>\$ 72,966</u>	<u>\$ 11,449</u>	<u>\$ 68,982</u>
\$ 17,548	\$108,013	\$ 72,966	\$ 11,449	\$ 68,982
<u>\$ 17,548</u>	<u>\$108,013</u>	<u>\$ 72,966</u>	<u>\$ 11,449</u>	<u>\$ 68,982</u>

CITY OF CHEROKEE  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS - Continued  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	<u>Permanent Oak Hill Perpetual Care</u>	<u>Total</u>
RECEIPTS:		
Property tax .....		\$ 27,465
Tax increment financing .....		205,308
Other city tax .....		481,358
Use of money and property .....	\$ 6,499	38,168
Intergovernmental .....		4,870
Miscellaneous .....	<u>3,040</u>	<u>46,826</u>
TOTAL RECEIPTS	<u>9,539</u>	<u>803,995</u>
DISBURSEMENTS:		
Operating:		
Public works .....		158,753
Culture and recreation .....	3,349	81,909
Community and economic development .....		535
Capital projects .....		<u>596,642</u>
TOTAL DISBURSEMENTS	<u>3,349</u>	<u>837,839</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>6,190</u>	<u>(33,844)</u>
OTHER FINANCING SOURCES (USES):		
Bond proceeds .....		150,000
Operating transfers in .....		47,965
Operating transfers out .....		<u>(480,910)</u>
TOTAL OTHER FINANCING SOURCES (USES)		<u>(282,945)</u>
NET CHANGE IN CASH BALANCES	6,190	(316,789)
CASH BALANCES - BEGINNING OF YEAR .....	<u>135,437</u>	<u>1,239,595</u>
CASH BALANCES - END OF YEAR	<u>\$141,627</u>	<u>\$ 922,806</u>
CASH BASIS FUND BALANCES:		
Unreserved:		
Special revenue funds .....		\$ 634,044
Capital projects .....		147,135
Permanent fund .....	<u>\$141,627</u>	<u>141,627</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$141,627</u>	<u>\$ 922,806</u>

CITY OF CHEROKEE  
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 NONMAJOR PROPRIETARY FUNDS  
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Enterprise Funds				
	<u>Landfill</u>	<u>Solid Waste</u>	<u>Storm Water</u>	<u>Airport</u>	<u>Total</u>
OPERATING RECEIPTS:					
Charges for service .....	\$140,940	\$210,971	\$ 81,237		\$433,148
Use of money and property .....			8,927		8,927
Miscellaneous .....		19		\$ 100	119
TOTAL OPERATING RECEIPTS	<u>140,940</u>	<u>210,990</u>	<u>90,164</u>	<u>100</u>	<u>442,194</u>
OPERATING DISBURSEMENTS:					
Business type activities .....	<u>142,499</u>	<u>214,224</u>	<u>18,171</u>		<u>374,894</u>
TOTAL OPERATING DISBURSEMENTS	<u>142,499</u>	<u>214,224</u>	<u>18,171</u>		<u>374,894</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	(1,559)	(3,234)	71,993	100	67,300
NONOPERATING RECEIPTS:					
Transfers in .....				<u>17,000</u>	<u>17,000</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(1,559)	(3,234)	71,993	17,100	84,300
CASH BALANCES - BEGINNING OF YEAR .....	<u>(5,477)</u>	<u>(554)</u>	<u>165,072</u>	<u>(35,582)</u>	<u>123,459</u>
CASH BALANCES - END OF YEAR	<u>\$ (7,036)</u>	<u>\$ (3,788)</u>	<u>\$237,065</u>	<u>\$ (18,482)</u>	<u>\$207,759</u>
CASH BASIS FUND BALANCES:					
Unreserved .....	<u>\$ (7,036)</u>	<u>\$ (3,788)</u>	<u>\$237,065</u>	<u>\$ (18,482)</u>	<u>\$207,759</u>
TOTAL CASH BASIS FUND BALANCES	<u>\$ (7,036)</u>	<u>\$ (3,788)</u>	<u>\$237,065</u>	<u>\$ (18,482)</u>	<u>\$207,759</u>



CITY OF CHEROKEE  
SCHEDULE OF INDEBTEDNESS  
YEAR ENDED JUNE 30, 2007

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Balance Beginning of Year</u>
General Obligation Notes:				
Sioux Valley Memorial Hospital Wellness Center	11-01-00	5.40 - 6.25%	\$1,000,000	\$ 750,000
Essential corporate purpose (miscellaneous projects)	7-1-02	2.50 - 4.70%	1,430,000	1,075,000
1993 refunding 2004 A	4-15-04	1.25 - 3.35%	1,785,000	1,520,000
Essential corporate purpose 2004 B	6-15-04	2.40 - 4.50%	3,200,000	2,915,000
Essential corporate purpose (street sweeper)	11-01-06	4.75%	150,000	
Essential corporate purpose (aquatic center)	8-15-06	4.10 - 4.60%	400,000	_____
TOTAL				<u>\$6,260,000</u>
Revenue Notes:				
Sewer	9-30-99	4.23%	\$2,170,000	\$1,783,000
Water	4-01-02	3.25 - 5.00%	1,330,000	725,000
Sewer	6-19-02	3.00%	3,390,000	2,934,000
Aquatic center	2-02-07	5.00%	1,650,000	_____
TOTAL				<u>\$5,442,000</u>

## Schedule 3

<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
	\$ (60,000)	\$ 690,000	\$ 42,945	
	(90,000)	985,000	48,465	
	(280,000)	1,240,000	40,813	
	(295,000)	2,620,000	111,855	
\$ 150,000		150,000	4,156	
<u>400,000</u>	<u>          </u>	<u>400,000</u>	<u>14,317</u>	<u>          </u>
<u>\$ 550,000</u>	<u>\$(725,000)</u>	<u>\$6,085,000</u>	<u>\$262,551</u>	<u>\$          </u>
	\$ (88,000)	\$1,695,000	\$ 66,580	
	(170,000)	555,000	34,863	
	(135,000)	2,799,000	88,020	
<u>\$1,650,000</u>	<u>          </u>	<u>1,650,000</u>	<u>27,271</u>	<u>          </u>
<u>\$1,650,000</u>	<u>\$(393,000)</u>	<u>\$6,699,000</u>	<u>\$216,734</u>	<u>\$          </u>

CITY OF CHEROKEE  
NOTE MATURITIES  
JUNE 30, 2007

General Obligation Notes

<u>Miscellaneous Projects</u>						
<u>Year Ending June 30,</u>	<u>Issued 11-01-2000</u>		<u>Issued 7-1-2002</u>		<u>Issued 4-15-2004</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2008	5.90%	\$ 60,000	4.20%	\$ 85,000	2.30%	\$ 295,000
2009	5.90%	65,000	4.35%	210,000	2.55%	180,000
2010	5.90%	70,000	4.50%	220,000	2.75%	185,000
2011	5.40%	70,000	4.60%	230,000	3.00%	185,000
2012	5.45%	75,000	4.70%	240,000	3.20%	195,000
2013	5.50%	80,000			3.35%	200,000
2014	5.55%	85,000				
2015	5.60%	90,000				
2016	5.70%	95,000				
2017						
TOTAL		<u>\$ 690,000</u>		<u>\$ 985,000</u>		<u>\$1,240,000</u>

<u>Revenue Notes</u>						
<u>Year Ending June 30,</u>	<u>Sewer Issued 9-30-99</u>		<u>Water Issued 4-1-02</u>		<u>Sewer Issued 6-19-02</u>	
	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>
2008	4.23%	\$ 91,000	4.75%	\$ 175,000	3.00%	\$ 139,000
2009	4.23%	95,000	4.90%	185,000	3.00%	143,000
2010	4.23%	99,000	5.00%	195,000	3.00%	147,000
2011	4.23%	103,000			3.00%	152,000
2012	4.23%	107,000			3.00%	156,000
2013	4.23%	112,000			3.00%	161,000
2014	4.23%	118,000			3.00%	166,000
2015	4.23%	122,000			3.00%	171,000
2016	4.23%	127,000			3.00%	176,000
2017	4.23%	132,000			3.00%	181,000
2018	4.23%	138,000			3.00%	187,000
2019	4.23%	144,000			3.00%	192,000
2020	4.23%	150,000			3.00%	198,000
2021	4.23%	157,000			3.00%	204,000
2022					3.00%	210,000
2023					3.00%	216,000
TOTAL		<u>\$1,695,000</u>		<u>\$ 555,000</u>		<u>\$2,799,000</u>

## Schedule 4

Miscellaneous Projects						
Issued 6-15-2004		Issued 8-15-2006		Issued 11-01-2006		
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
3.20%	\$ 305,000	4.18%	\$ 35,000	4.75%	\$ 23,000	\$ 803,000
3.45%	315,000	4.15%	35,000	4.75%	28,000	833,000
3.65%	300,000	4.20%	35,000	4.75%	31,000	841,000
3.85%	310,000	4.25%	35,000	4.75%	33,000	863,000
4.05%	325,000	4.30%	40,000	4.75%	35,000	910,000
4.20%	340,000	4.35%	40,000			660,000
4.35%	355,000	4.40%	40,000			480,000
4.50%	370,000	4.45%	45,000			505,000
		4.50%	45,000			140,000
		4.60%	50,000			50,000
	<u>\$2,620,000</u>		<u>\$ 400,000</u>		<u>\$ 150,000</u>	<u>\$6,085,000</u>

Aquatic Issued 2-02-2007

Interest Rates	Amount	Total
5.00%	\$ 150,000	\$ 555,000
5.00%	200,000	623,000
5.00%	300,000	741,000
5.00%	500,000	755,000
5.00%	500,000	763,000
		273,000
		284,000
		293,000
		303,000
		313,000
		325,000
		336,000
		348,000
		361,000
		210,000
		<u>216,000</u>
	<u>\$1,650,000</u>	<u>\$6,699,000</u>

CITY OF CHEROKEE  
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION  
 ALL GOVERNMENTAL FUNDS  
 FOR THE LAST FOUR YEARS

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
RECEIPTS:				
Property and other city tax .....	\$2,135,270	\$2,115,269	\$1,980,336	\$2,073,806
Tax increment financing .....	205,308	170,779	221,297	203,467
Licenses and permits .....	25,777	27,469	25,519	27,128
Use of money and property .....	163,893	193,391	133,901	88,240
Intergovernmental .....	887,099	487,336	528,684	1,184,756
Charges for service .....	101,431	59,620	69,978	82,648
Special assessments .....	25,830	52,077	225,640	24,633
Miscellaneous .....	<u>1,358,900</u>	<u>567,434</u>	<u>370,588</u>	<u>1,204,605</u>
TOTAL REVENUES	<u>\$4,903,508</u>	<u>\$3,673,375</u>	<u>\$3,555,943</u>	<u>\$4,889,283</u>
DISBURSEMENTS:				
Public safety .....	\$ 922,236	\$ 935,557	\$ 842,842	\$ 825,650
Public works .....	738,554	486,313	629,256	475,612
Culture and recreation .....	680,192	909,802	686,449	672,576
Community and economic development .	635	1,777	6,944	99,075
General government .....	303,901	295,914	285,331	288,555
Debt service .....	983,395	1,192,475	2,161,195	4,033,976
Capital projects .....	<u>3,032,922</u>	<u>211,407</u>	<u>169,650</u>	<u>2,984,197</u>
TOTAL EXPENDITURES	<u>\$6,661,835</u>	<u>\$4,033,245</u>	<u>\$4,781,667</u>	<u>\$9,379,641</u>

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

1316 West 18th Street  
P.O. Box 175  
Spencer, Iowa 51301-0175  
Phone 712-262-3117  
FAX 712-262-3159

1004 21st Street #4  
P.O. Box 187  
Milford, Iowa 51351  
Phone 712-338-2488  
FAX 712-338-2510

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INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and  
Members of the City Council  
City of Cherokee  
Cherokee, IA 51012

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Cherokee, Iowa as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents, and have issued our report thereon dated January 10, 2008. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Cherokee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency and a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to

initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe item I-A-07 is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Cherokee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Cherokee, and other parties to whom the City of Cherokee may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Cherokee during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink, reading "Winter, Steve G. LHP". The signature is written in a cursive, flowing style.

January 10, 2008

CITY OF CHEROKEE  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

**Part I: Findings Related to the Financial Statements**

**Significant Deficiency:**

I-A-07    Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one individual has custody of receipts, prepares bank deposits, picks up bank statements, and performs posting of cash receipts to the cash receipts journal. We also noted this individual is the only authorized signer on the City's primary financial institution account.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City should consider having another official or employee added as an authorized signer on the primary financial institution account.

Response - We will consider our control procedures and whether to add another authorized signer to the primary financial institution account.

Conclusion - Response accepted.

**Instances of Non-Compliance:**

No matters were noted.



CITY OF CHEROKEE  
SCHEDULE OF FINDINGS - Continued  
YEAR ENDED JUNE 30, 2007

**Part II: Other Findings Related to Statutory Reporting**

- II-A-07 Certified Budget - Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the following functions: public safety, community and economic development, and debt service. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-07 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Duane Mummert, Park Superintendent	Tooling expense	\$ 1,000

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Park Superintendent does not appear to represent conflicts of interest since the total transaction was less than \$1,500 during the fiscal year.

- II-E-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- II-F-07 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF CHEROKEE  
SCHEDULE OF FINDINGS - Continued  
YEAR ENDED JUNE 30, 2007

**Part II: Other Findings Related to Statutory Reporting** - Continued

II-G-07 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-07 Revenue Notes - The City has complied with various water and sewer revenue note resolutions.

II-I-07 Financial Condition - The following funds had a deficit balance at June 30, 2007:

Proprietary - Landfill  
                  - Solid Waste  
                  - Airport

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial position.

Response -

Proprietary - Landfill - Solid Waste - Airport	Reduce spending Reduce spending Transfers from other funds
--	--

Conclusion - Response accepted.

II-J-07 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution was exceeded for one financial institution during the year ended June 30, 2007.

Recommendation - We recommend amounts deposited in financial institutions be regularly reviewed for compliance with the depository resolution.

Response - The maximum deposit amount was temporarily exceeded due to the receipt of tax revenues. We will regularly review financial institution account balances for compliance with the depository resolution.

Conclusion - Response accepted.